STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S 2020 ENERGY EFFICIENCY PROGRAM PLAN	: : :	**DOCKET NO. 4979**

REPORT AND ORDER

On October 15, 2019, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed with the Public Utilities Commission (PUC or Commission) the Energy Efficiency Program Plan for 2020 (2020 Efficiency Plan or Plan).[1] The 2020 Efficiency Plan was filed as a settlement agreement executed by National Grid, the Office of Energy Resources (OER), the Energy Efficiency and Resources Management Council (EERMC), Acadia Center, The Energy Council of Rhode Island, and the Green Energy Consumer Alliance, Inc. (collectively the Settling Parties). The Division of Public Utilities and Carriers (Division) filed a letter of support for the Plan but did not sign on to the settlement agreement.[2]

I. Energy Efficiency Program Plan for 2020

A. Overview of Costs, Benefits and Savings

The Settling Parties submitted the 2020 Efficiency Plan pursuant to the System Reliability and Least Cost Procurement (LCP) statute, R.I. Gen. Laws § 39-1-27.7, and the Least Cost Procurement Standards (Standards), as approved by the PUC at an Open Meeting on September 6, 2018 in Docket No. 4684.[3] The primary goal of the Plan is to create energy and economic cost

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[1] National Grid's Energy Efficiency Program Plan for 2020; http://www.ripuc.ri.gov/eventsactions/docket/4979-NGrid-EEPP2020(10-15-19).pdf. All filings in this docket are available at the PUC offices, located at 89 Jefferson Boulevard, Warwick R.I. or at http://www.ripuc.ri.gov/eventsactions/docket/4979page.html.
[2] Division Comments filed on Nov. 6, 2019; http://www.ripuc.ri.gov/eventsactions/docket/4979-DIV-Comments 11-06-19.pdf
[3] The System Reliability and Least Cost Procurement statute (R.I. Gen. Laws § 39-1-27.7) encourages the investment in cost-effective energy efficiency. Subsection (c)(5) of the statute provides the EERMC with the specific responsibility of reviewing and approving the cost-effectiveness of the energy efficiency plans. The

savings for Rhode Island consumers through electric and natural gas energy efficiency, as required by R.I. Gen. Laws § 39-1-27.7. The framework for the program consists of three-year planning periods and savings goals, followed by the development and implementation of annual plans, with the focus on achieving cost-effective energy efficiency. The 2020 Efficiency Plan covers the third year of the 2018-20 Three Year Plan.[4]

The proposed 2020 Efficiency Plan included a projected budget of $111.4 million to deliver electric efficiency programs and $34.4 million to deliver gas efficiency programs in 2020.[5] National Grid estimated that the electric-funded portion of the Plan would create electric and delivered fuels savings of 177,926 net annual MWhs, equivalent to 5,123,368 lifetime MMBtus, and 29,859 net annual kW.[6] The natural gas-funded portion of the Plan would create savings of 446,621 net annual MMBtus and 4,816,261 net lifetime MMBtus.[7] National Grid asserted that the Plan would generate benefits of more than $746 million over the life of the measures. The Company also represented that the 2020 Efficiency Plan is cost-effective using the Rhode Island Test (RI Test).[8] National Grid stated that Rhode Island customers will realize $4.64 in lifetime benefits for every $1.00 invested in the Plan's electric and delivered fuels programs and $3.28 in

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EERMC reviewed and approved the 2019 Efficiency Plan, finding that it was cost effective according to the Rhode Island Test (RI Test) and the historically referenced Total Resource Cost Test, and that the energy saving are projected to cost less than the acquisition of additional supply. *See* Cost Effectiveness Report: National Grid's 2019 Energy Efficiency and System Reliability Procurement Plan; http://www.ripuc.ri.gov/eventsactions/docket/4888-4889-EERMC-CostEffectiveReport(10-30-18).pdf.

[4] See Docket No. 4684. At the Open Meeting on April 27, 2017, the Commission unanimously approved the Energy Efficiency Savings Targets (Targets) proposed by the EERMC in Docket 4684. *See* PUC Order No. 23446 (March 5, 2019). The Commission found that the Targets reasonably reflected Rhode Island's energy efficiency potential projected over the three-year period from 2018-2020. Additionally, Section 1.1 of the Standards requires National Grid to file annually a program plan with implementation details by program for the following program year.

[5] 2020 Efficiency Plan at 100.

[6] *Id.* At 94.

[7] *Id.*

[8] *Id.* at 97 and Attachment 4. In Docket No. 4684, the PUC approved revised Least Cost Procurement Standards that set forth new requirements for a cost-effectiveness test, called the RI Test, designed to more fully reflect state policy with regard to energy, its costs, benefits, and environmental and societal impacts. The Standards require National Grid to assess the cost-effectiveness of measures, programs, and portfolios according to the RI Test that was approved by the Commission in Docket 4600. The RI Test is intended to capture all benefits and costs of interest in Rhode Island energy policy and will allow a fair comparison of diverse resources in Rhode Island.

lifetime benefits for every $1.00 invested in the natural gas programs.[9] The Company further asserted that the investments made to achieve these savings would add $278.8 million to Rhode Island's state gross domestic product.[10] Overall, National Grid represented that the 2020 Efficiency Plan would generate lifetime benefits of more than $746 million, with $602.7 million in benefits coming from electric and delivered fuels efficiency, passive demand response, and active demand response, and $143.4 million in benefits coming from natural gas efficiency.[11]

National Grid averred that the 2020 Efficiency Plan satisfied the statutory requirement that the cost of procuring energy efficiency be less expensive than the cost of acquiring additional energy supply. National Grid calculated the cost of procuring the lifetime savings for the electric efficiency portfolio at $192.1 million less than if the electric load was met by purchasing additional electric supply, and $20.7 million less than if the natural gas load was met by purchasing additional natural gas supply.[12]

The 2020 Efficiency Plan proposed a fully reconciling funding mechanism that, effective January 1, 2020, would increase the current $0.01121 per kWh electric Energy Efficiency Program (EEP) Charge by $0.00206 per kWh, resulting in a EEP charge of $0.01327 per kWh, and would increase the current gas residential $0.715 per dekatherm charge by $0.296 per dekatherm, resulting in a $1.011 per dekatherm EEP Charge for residential gas programs.[13] The 2020 Efficiency Plan would also increase the current commercial and industrial $0.420 per dekatherm charge by $0.284 per dekatherm, resulting in a $0.704 per dekatherm EEP Charge.[14]

B. Programs

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[9] 2020 Efficiency Plan at 97.
[10] *Id*.
[11] *Id.* at 94.
[12] *Id*. at 99.
[13] National Grid Revised Tables E-1 and G-1, Dec. 6, 2019.
[14] National Grid Revised Tables E-1 and G-1, Dec. 6, 2019.

National Grid proposed to continue all of the residential, commercial, and industrial energy efficiency programs that had been offered in 2019.[15] An overview of the programs was included in Tables E-2 and G-2 of the filing and the specific programs were set forth in detail within the proposal.[16] National Grid proposed changes to several programs as described below.

i. Efficient Buildings Fund

National Grid proposed to continue to provide funding for the Efficient Buildings Fund (EBF), a financing option for municipalities and quasi-public agencies to complete energy efficiency and renewable energy projects.[17] National Grid has transferred $16,870,500 in energy efficiency funds to the EBF since 2016.[18] A total of $18.1 million dollars in energy efficiency loans have been made since the first EBF loan was issued in 2016.[19] National Grid asserts that RIIB leverages these funds in the bond market resulting in a pool of funds approximately two times larger than the amount transferred. The funding pool is used to issue loans to municipalities and quasi-public agencies. As the borrowers repay their loans, the loan repayments are returned to the pool and are available to be recycled into new loans.[20]

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[15] S*ee* National Grid's Resp. COMM 1-3; http://www.ripuc.ri.gov/eventsactions/docket/4979-NGrid-DR-PUC1 (12-6-19).pdf.
[16] The non-income eligible residential programs are: (1) Residential New Construction; (2) Energy Star® HVAC; (3) EnergyWise; (4) EnergyWise Multi-Family; (5) Energy Star® Lighting; (6) Residential Consumer Products; (7) Home Energy Reports; (8) Residential ConnectedSolutions; (9) Energy Efficiency Education Programs; (10) Residential Pilots; (11) Community Based Initiatives – Residential; and (12) Comprehensive Marketing – Residential. The income eligible residential programs are: (1) Single Family – Income Eligible Services; and (2) Income Eligible MultiFamily. The commercial and industrial programs are: (1) Large Commercial New Construction; (2) Large Commercial Retrofit; (3) Small Business Direct Install; (4) Commercial ConnectedSollutions; (5) Commercial Pilots; and (5) Community Based Initiatives – C&I. *See* 2020 Efficiency Plan at Tables E-2 and G-2 and Attach. 1 and 2.
National Grid proposed to discontinue several measures that had been offered in 2019. S*ee* National Grid's Resp. COMM 1-3 for the list of measures that were offered in the 2019 Efficiency Plan and are not being offered in the 2020 Efficiency Plan.
[17] EBF is administered in partnership with the OER and the RIIB. The OER is responsible for determining project eligibility, reviewing project applications, and producing a priority list of projects. RIIB then finances projects that are on the priority list.
[18] National Grid's Resp. COMM 1-57.
[19] 2020 Efficiency Plan at 350.
[20] *Id.*

National Grid proposed a change in the way it would transfer funds to the EBF in the 2020 Efficiency Plan. National Grid will transfer funds on an as needed basis, after receiving a request from RIIB indicating which projects have been approved for EBF funds and met the EBF rules and regulations, with no more than three funding transfers during the year, and after receiving notification from an approved EBF applicant that it intend to close a loan in calendar year 2020.[21]

National Grid provided a forecasted pipeline of expected loans and estimated that the EBF would make approximately $15.6 million in energy efficiency loans in 2020. National Grid represented that $5.2 million will need to be transferred to the EBF in 2020 and expects that those funds will be leveraged to three times that amount to fund the anticipated loans.[22]

ii. Electrification of Heat and Parity to Delivered Fuels Customers

National Grid proposed several changes related to incentives offered to delivered fuels customers. First, National Grid proposed doubling the number of residential homes incentivized to replace or displace their existing oil, propane or electric resistance heat with electric heat provided by air source heat pumps.[23] National Grid explained that at the end of 2018, it began offering incentives for a small number of air source heat pumps for customers with electric resistance, oil, or propane heat to transition to air source heat pumps.[24] In 2019, National Grid expanded the number of residential homes incentivized and increased the number of contractors approved to install the systems.[25]

However, in response to data requests from the PUC, National Grid acknowledged that there are no electric savings associated with replacing or displacing existing oil or propane heat

[21] 2020 Efficiency Plan at 352-54.
[22] *Id.* at 352-53.
[23] *Id.* at 118-19.
[24] *Id.*
[25] *Id*.

with electric heat provided by air source heat pumps.[26] Conversely, National Grid asserted that there are electric savings associated with replacing electric resistance heat with electric heat provided by air source heat pumps.[27] Additionally, National Grid detailed that the anticipated simple payback period for delivered fuel customers that adopted air source heat pumps ranged from 5.39 to 35.91 years for propane and oil heat customers that displaced their heating system with some form of heat pump system.[28]

Second, National Grid explained that it intended to continue to offer customers that heat their homes with deliverable fuels the ability to participate in no-cost home energy assessments and to receive incentives for weatherization installations at the same level as non-deliverable fuel customers.[29] In response to inquiry from the PUC, National Grid explained that there are electric savings associated with weatherization of delivered fuel homes.[30]

As a result of the increased emphasis on delivered fuels customers, National Grid proposed significant changes to the Plan's performance incentive mechanism. The 2020 Efficiency Plan proposed a performance incentive carve-out for achievement of targets related to both air-source heat pump installations as well as weatherization measures for customers who currently rely on delivered fuels for heating. National Grid's proposed electric portfolio

[26] National Grid's Resp. COMM 1-16.
[27] National Grid's Resp. COMM 1-16.
[28] National Grid's Resp. COMM 2-2. As further detailed below, National Grid estimated the life expectancy of the centrally ducted heat pump at 16 years. National Grid's Resp. RR 5.
[29] In response to inquiry from the PUC, National Grid explained that it began providing parity to deliverable fuels customers in 2018 and continued to do so through 2019. *See* National Grid's Resp. COMM 1-23.
[30] National Grid's Resp. COMM 1-21. National Grid asserted that there are electric savings associated with replacing electric resistance heat with electric heat provided by air source heat pumps. National Grid's Resp. COMM 1-16.

performance incentive in 2020 would continue to be primarily based on achievement of specific annual energy savings (MWh) and passive demand reduction (kW) savings goals, as in 2019. [31]

Beginning in 2020, National Grid proposes a Delivered Fuel Performance Incentive carve-out. This separate earning mechanism for installation of air-source heat pumps and weatherization measures that save customers delivered fuels would be based on achievement of an all-fuels annual MMBtu savings goal tied to specific measures and programs targeted at delivered fuels customers.[32] The subtotal of rebates and other customer incentives and allocated costs for the Delivered Fuels Performance Incentive carve-out represented 11% of the electric eligible spending budget.[33]

C. Stakeholder and Public Comment

The Division submitted correspondence stating its support for the 2020 Efficiency Plan.[34] The Division stated that, although it was concerned with the increase in the size of the spending budget for the proposed Plan, it supported the Plan as a "Statutory Intervenor" rather than as a party to the settlement agreement.[35]

OER submitted correspondence in support of the proposed Plan and encouraged the PUC to approve it as filed. OER highlighted its support for several aspects of the Plan, including the proposals to double the number of heat pump installations for delivered fuel and electrically heated buildings and to continue the parity between weatherization incentives for delivered fuels and

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[31] National Grid's proposal referred to this as the Core Electric Performance Incentive. 2020 Efficiency Plan at 57-60.
[32] National Grid's Resp. COMM 1-21. The kW savings associated with weatherization of delivered fuel homes continue to be included in the demand component of the Core Electric Performance Incentive Mechanism. Id.
[33] National Grid's Resp. COMM 2-1. The proposed total electric eligible spending budget for 2020 was $101.35 million. Id.
[34] Division Letter (Nov. 7, 2019); http://www.ripuc.ri.gov/eventsactions/docket/4979-DIV-Comments 11-06-19.pdf.. Written comments from the Division, OER, Acadia Center, and RIIB are available at the PUC offices, located at 89 Jefferson Boulevard, Warwick R.I. or at http://www.ripuc.ri.gov/eventsactions/docket/4979page.html.
[35] Id. at 1.

natural gas customers. OER averred that the heat pump initiative was foundational to achieving the state's greenhouse gas reduction targets.[36]

Acadia Center, a nonprofit research and advocacy organization, submitted a letter of support for the Plan. Acadia Center requested that the PUC approve the Plan and highlighted its support for the heat pump program and incentives. Acadia Center commented that electrification of the heating sector is critically important to the state's efforts to decarbonize and reduce its overreliance on all fossil fuels.[37]

RIIB also submitted written comment in support of the Plan and averred that EBF loans have created significant energy cost savings, generated significant environmental benefits, and supported construction jobs around the state.[38]

II. Technical Session and Hearing

On December 6, 2019, National Grid informed the PUC it had discovered a significant accounting error that impacted the 2020 Efficiency Plan and the System Reliability Procurment Plan. National Grid advised that it was working on a written explanation of the error and would file an explanation and corrected schedules and tables as soon as possible. After being advised of the error shortly before the scheduled hearing, the PUC made the determination to convert the first portion of the scheduled hearing into a technical session to allow the PUC to review the accounting error, along with the recently filed information, without the constraints of regular cross-examination.[39]

[36] OER Letter (Nov. 7, 2019); http://www.ripuc.ri.gov/eventsactions/docket/4979-OER-Comments 11-06-19.pdf.
[37] Acadia Center Letter (Dec. 9, 2019); http://www.ripuc.ri.gov/eventsactions/docket/4979-Acadia Center Letter of Support.pdf.
[38] RIIB Letter (Dec. 2, 2019); .http://www.ripuc.ri.gov/eventsactions/docket/4979-RI Infrastructure Bank Comments 2020 EE Plan.pdf.
[39] The hearing was scheduled for Monday, December 9, 2019. National Grid did not file the written explanation of the accounting error until 4 p.m. on Friday, December 6, 2019.

A. Technical Session

The PUC convened the technical session on December 9, 2019. Jack Navarro, Director of Commercial Portfolio Performance, and Christopher Porter, Director of Customer Energy Management New England, appeared for National Grid. Mr. Navarro explained that National Grid had discovered three errors in the calculation of the System Reliability Procurement (SRP) fund: 1) the failure to manually update the SRP factor in 2016, 2017, and 2018; 2) a manual data entry error that led to an under-collection in the SRP fund balance in 2018 of about $70,000; and 3) a timing error in which National Grid incorrectly used different dates to calculate the EE and SRP factors that also resulted in a $70,000 under collection in 2018. Mr. Navarro explained that National Grid has updated its processes to automate certain accounting tasks to eliminate these types of manual errors.[40]

Mr. Navarro then explained how during the process of investigating these errors, National Grid discovered two additional errors related to the calculation of the forecasted year-end balance for energy efficiency. The first error was again a manual error – electric expenses were classified as gas expenses and gas expenses were classified as electric. Because electric expenses are higher than gas expenses, there was a $1.5 million overstatement of gas expenses and a corresponding understatement of electric expenses. The second error was also a manual error in which the Company failed to update the interest rate used to calculate the interest income for the gas fund balance. The two errors combined resulted in an overstatement of the electric year-end fund balance of $1.57 million and a corresponding understatement of the year-end gas fund balance.[41]

[40] Efficiency Hr'g Tr. (Dec. 9, 2019) (hereinafter "Efficiency Hr'g Tr. I") at 26-67.
[41] *Id*. Jonathan Schrag also testified for the Division. Mr. Schrag first acknowledged National Grid's candor in addressing the errors, and testified that as a result of that candor, the Division would not seek sanctions against Nation Grid. *Id*. at 75-76.

The PUC then examined National Grid regarding the EBF and the RIIB for the remainder of the technical session. Mona Chandra, Principal Analyst, Matthew Ray, Manager of Customer Energy Management Rhode Island, and Benjamin Rivers, Senior Analyst, joined Mr. Porter in testifying for National Grid. Mr. Rivers explained that National Grid did not have specific energy savings associated with the transfer of money to the EBF.[42] Rather, National Grid considers the transfers an "enabling mechanism" that enables it to capture savings. Mr. Rivers further explained that transferred funds are included in National Grid's spending budget, and it earns an incentive on the spending at the time funds are transferred to RIIB, but energy savings are not recorded by National Grid until projects are completed. Further illustrating the disconnect between the transfer of funds and resulting energy savings, Mr. Rivers described how none of the funds transferred to the RIIB in 2019 resulted in any energy savings in 2019.[43] Mr. Rivers acknowledged that it was unknown whether any projects funded by the proposed transfer to the RIIB would result in any savings in the following years due to the nature of the projects and admitted that National Grid uses the expected projects indirectly as an "influence" in building out its savings targets.[44]

B. Hearing

The PUC concluded the technical session and convened the hearing on the afternoon of December 9, 2019. Ms. Chandra, Mr. Ray, Mr. Porter, Mr. Navarro, and Mr. John Tortorella, Senior Analyst, testified for National Grid. Mr. Navarro testified that the accounting errors did not have a significant impact on ratepayers, as the $140,000 under collection in 2018 self-reconciled in the 2019 SRP factor, and the remaining errors involved miscategorized funds that when recategorized did not result in any impact on ratepayers.[45]

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[42] *Id.* at 88.
[43] *Id.* at 123-24.
[44] *Id.* at 124-24, 129-30.
[45] *Id.* at 192-94.

Laura Rodormer, Energy Efficiency Lead Analyst, and Antonio Larson, Lead Analyst, joined National Grid's witnesses to testify about National Grid's delivered fuels incentives. Ms. Rodormer testified that the electrification program (delivered fuels to electric heating) program began in November 2018. She testified that the Company had proposed the electrification program in Docket Nos. 4770 and 4780, and the PUC rejected the heating proposal and voted to have National Grid submit a similar proposal in the energy efficiency program.[46] Mr. Larson testified that the replacement of delivered fuels systems did not result in any net electric energy savings, but actually increased electric energy use.[47] Conversely, the replacement of electric resistance systems did result in electric savings.[48]

Ms. Rodormer further testified that the simple payback period for a Central Ducted Heat Pump Fully Displacing an Oil Furnace was over 35 years, and Mr. Torterella testified that the life expectancy of that heat pump was only 17 years.[49] Ms. Rodormer explained that, although it did not appear cost-effective for a customer to undertake this conversion, factors other than cost, such as reducing their carbon impact or simply wanting to get rid of their oil system, could impact a customer's decision.[50] Ms. Rodormer further explained that the reasoning for the incentives for oil and propane conversions is the state's priorities for greenhouse gas reduction and decarbonization. Conversely, the electric resistance to air source heat pump conversion provides significant economic benefits to the customer.[51] Mr. Porter also added that the displacement of

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[46] *Id.* at 232-33.
[47] *Id.* at 233-34.
[48] *Id.* at 234. Likewise, Mr. Porter testified that weatherization measures for oil and propane customers result in electric energy savings. Efficiency Hr'g Tr. (December 10, 2019) (hereinafter "Efficiency Hr'g Tr. II") at 57.
[49] *Id.* at 210-12. Regarding other measures listed on PUC 2-2, Mr. Larson later testified that all of the heat pump measures had a life expectancy of 16 to 18 years. Efficiency Hr'g Tr. II at 4.
[50] Efficiency Hr'g Tr. I at 211-12. However, in response to data requests, National Grid stated that it had not prepared a cost-benefit analysis of gas-to-electric heat pump space heating conversions because those conversions do not currently provide favorable customer economics and thus were unlikely to produce near-term adoption or positive customer experience. PUC 1-35.
[51] Efficiency Hr'g Tr. I at 223-24.

delivered fuels was consistent with the Company's 80-by-50 goals, whereby the Company sought to reduce greenhouse gas emissions by 80 percent below 1990 levels by 2050.[52]

Mr. Tortorella testified that part of the reason for the Delivered Fuel Performance Incentive carve-out was because National Grid could not claim energy or demand savings for oil and propane conversions.[53] He elaborated that the carve-out was focused on space heating measures, and Mr. Porter further explained that the measures included in the carve-out were collaboratively developed with stakeholders to align the company's incentive mechanism with the stakeholders' desired outcomes.[54]

The OER, EERMC, and Division witnesses testified as a panel. Jonathan Schrag, Deputy Administrator for the Division, testified that the Division supported the heat electrification measures in the Plan and that, part of the reason for its support, was due to the relationship between the utility and its customers in regard to customers' homes.[55] Becca Trietch, Administrator for the OER, testified in support of the heating electrification proposals, and explained that the proposals would reduce overall energy consumption, reduce greenhouse gas emissions, and assist in workforce development.[56] Michael Guerard, Managing Consultant at Optimal Energy, and Samuel Ross, Consultant with Optimal Energy, testified on behalf of EERMC. Mr. Guerard testified that the EERMC supported the inclusion of heating electrification measures. However, under cross-examination Mr. Ross, Ms. Trietch, and Mr. Schrag all testified that they were generally unaware of the lengthy payback periods for some of the heat pump measures.[57]

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[52] Efficiency Hr'g Tr. II at 34-35.
[53] Efficiency Hr'g Tr. I at 237.
[54] Efficiency Hr'g Tr. II at 61-62.
[55] *Id.* at 160.
[56] *Id.* at 165-66.
[57] *Id.* at 172-78.

III. Decision

At Open Meeting on December 17, 2020, the PUC, after careful review and consideration of the filings and testimony, voted unanimously to approve the 2020 Efficiency Plan and budgets with several modifications.

First, the PUC disallowed the proposed fuel switching rebates for replacement or displacement of oil or propane heat with electric heat provided by air source heat pumps.[58] The PUC found that the proposed fuel switching rebates were inconsistent with the LCP statute.[59] The stated purpose of the LCP statute, R.I. Gen. Laws § 39-1-27.7, is to meet Rhode Island's electrical and natural gas energy needs, in a manner that is optimally cost-effective, reliable, prudent, and environmentally responsible. These electrical and natural gas needs are met through cost effective energy efficiency instead of the acquisition of additional supply. Here the Company is proposing the opposite - the procurement of new incremental electric supply. The Energy Efficiency Plans

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[58] The specific measures and associated budgets were contained as provided in lines 1 through 12 and 14 of attachment to data response PUC 2-2. The PUC voted 2-1, with Commissioner Gold dissenting. Commissioner Gold believed that a one-year proposal to increase installation of heat pumps was fair and reasonable to ratepayers and provided an opportunity to jumpstart the transition away from fossil fuels pending the development of a long-term plan. She noted that considering "all fuels" efficiency targets was consistent with state policy goals as outlined in the LCP statute, the Resilient RI Act, and the LCP Standards. Commissioner Gold noted that the purpose of the LCP statute is to meet electric and natural gas energy needs in a cost effective, prudent, and environmentally responsible way. Moreover, the LCP Standards define energy efficiency as reduction of energy consumption and specifically reference addressing delivered fuel energy efficiency opportunities to the extent practical. Commissioner Gold found that the heat pump proposal was a step toward a more prudent and reliable electric and gas system and noted that electrification of heating means less reliance on natural gas. Commissioner Gold also noted that the EERMC found the proposal to be cost effective pursuant to both the Total Resource Cost and Rhode Island Test, and was also less than the cost of supply. Because heat pumps reduce greenhouse gas emissions, Commissioner Gold also found the proposal consistent with the LCP Standards and the Resilient RI Act. Commissioner Gold also noted that this was only a one-year proposal and that next year there may be other alternatives that were not presently before the Commission. Additionally, Commissioner Gold noted the heat pump proposal is supported by the OER, EERMC, and the Division, and builds on momentum while not dictating the final path.

[59] Commissioner Anthony noted that although she concluded in Docket No. 4770 that National Grid could propose electric heat incentives in the EE program, she now believes that was an incorrect decision. Commissioner Anthony stated that she previously understood that the heat pump rebates were intended to incentivize customers - who already made the decision to purchase a heat pump because their oil system was at end-of-life or had prematurely failed – to purchase a more efficient hear pump. Similarly, Chairperson Curran noted that to the extent that she previously approved similar measures or made decisions that are interpreted as fuel neutral, either she was wrong or those interpreting the prior decisions are incorrect, or both. The PUC is specifically charged with regulating electricity and natural gas, among other things, and cannot claim to be fuel neutral.

realize this purpose through procuring cost effective energy efficiency. The proposed rebates, by paying for oil and propane customers to purchase electric heat pumps, instead require the acquisition of additional electrical supply and are inconsistent with the statute.[60]

In addition, the Commission found that there had not been a sufficient showing that electric ratepayers, the people paying for the energy efficiency program, would receive any benefit from subsidizing the switch by oil or propane customers to electric heat pumps. Where the utility is proposing ratepayer funded expansion, as here, the PUC should ensure that the people paying for the expansion have a stake in the outcome. In the present case, several groups stood to potentially benefit from the proposal: 1) National Grid's shareholders stood to benefit from the potential for greater return on equity, increased cash flow, and greater liquidity; 2) delivered fuels customers had the potential to lower their energy bills, despite the lengthy payback periods; and 3) society could possibly benefit from lower greenhouse gas emission, although these potential benefits were not shown in this case. But, critical to this proposal, the people paying for it, electric ratepayers, were not shown to receive any benefits, beyond the potential societal benefits, resulting in an inequitable proposal where existing customers don't have a stake in the outcome, while new customers and shareholders do.

The Commission noted that the Resilient Rhode Island Act (Resilient RI Act) did not expand the PUC's existing authority to reach into an unregulated industry. Unlike the agencies and other entities working on these kinds of proposals, the PUC is not a policy making entity, but

[60] The PUC also took notice of the fact that in Docket No. 4991, the Division used similar reasoning in supporting the discontinuation of Pascoag Utility District's window and door incentive program because the vast majority of savings associated with the incentive are heat and thermal savings for delivered fuel customers rather than the electric customers that fund the program. *See* Pascoag Utility District 2020 Demand Side Management Program at http://www.ripuc.ri.gov/eventsactions/docket/4991page.html.

rather an economic regulator of the utility. The PUC can only engage in policy making as directed by the legislature and the present proposal is outside of the PUC's statutory authority.

The PUC provided that National Grid could reallocate $827,820, which was proposed to be spent on these rebates, to other residential electric efficiency programs – including to the appliance rebate program for heat pumps based on electricity savings - and resubmit appropriately revised electric savings targets.[61]

Second, the PUC rejected the Delivered Fuel Performance Incentive carve-out.[62] The PUC rejected the proposed carve-out for three reasons. First, National Grid failed to provide any evidence that there are net benefits from the carve-out that can be shared between the Company and ratepayers. In fact, the Company failed to provide any cost-benefit analysis. Second, the carve-out is a narrow action-based incentive focused on just two activities that can reduce delivered fuels just for space heating. While designed to reduce greenhouse gas emissions, the carve-out restricts innovation and overlooks other ways that the Company could reduce greenhouse gases. Third, National Grid has an existing incentive to pursue weatherization and has not demonstrated that a new incentive is needed to achieve its weatherization targets. As demonstrated in National Grid's response to PUC 2-3, National Grid consistently achieves and surpasses its electric weatherization targets. Moreover, as discussed above, National Grid has existing incentives to

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[61] The amount disallowed and to be reallocated is $827,820, this includes $657,000 in the budgets for the installations from PUC 2-2 plus the 26% programmatic costs from data response PUC 2-1.

[62] The PUC voted 2-1, with Commissioner Gold dissenting. Commissioner Gold supported the carve-out. Commission Gold stated that electrification is a viable pathway to deep decarbonization and noted that a long-term approach to achieve Rhode Island's goals that includes electrification is needed. The proposed carve-out is intended to enhance transformation in the heating sector and to encourage National Grid to consider alternatives to natural gas. Commissioner Gold noted that the Division indicated that the carve-out is intended to be a start and not the long-term solution, as a more comprehensive restructuring of performance incentives will be developed as part of the next tree-year plan.

promote heating incentives, including its return on equity and its own decarbonatization goals in its 80-by-50 Goals.

Third, the PUC unanimously approved the funding of the $5.2 million to the RIIB, and include it in the system benefit charge, but withheld approval of transfer of the funds to the RIIB until the PUC receives and reviews answers to post-decisional data requests regarding whether $5.2 million is the appropriate amount to transfer and whether there are funds available to reduce the $5.2 million requested. The PUC noted that it was still unclear what portion of the repayments from loan borrowers, evidenced by responses to post-hearing data requests, was available to reduce the $5.2 million request and whether there was further bond money available to reduce the request.[63]

Fourth, the PUC unanimously approved the energy efficiency budgets as presented in Table E-1 and Table G-1 as revised in National Grid's December 6, 2019 filing.

Fifth, the PUC ordered National Grid to submit a compliance filing by December 23, 2019 for review at Open Meeting on December 30, 2019. The PUC required National Grid to adjust the savings targets for the elimination of the delivered fuel carve-out and the inclusion of weatherization in the core electric targets, and to reallocate $827,820 from delivered fuel heat pumps to other residential programs.

Lastly, the PUC unanimously approved the 2020 Efficiency Plan as amended.

IV. National Grid's Compliance Filing

On December 20, 2019, National Grid filed the Compliance Filing ordered by the Commission on December 17, 2019.[64] The Company updated the electric tables to account for the elimination of the delivered fuels carve out and the inclusion of weatherization in the core electric

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[63] The PUC also discussed, but did not vote on, the incentive that National Grid receives for the transfer to the EBF.
[64] http://www.ripuc.ri.gov/eventsactions/docket/4979-NGrid-Compliance-RevElecTables(12-20-19).pdf.

targets. Further, the Company reallocated $569,718 from the previously budgeted delivered fuels heat pumps originally offered through the Income Eligible Services and HVAC programs to support increases in electric to electric heat pumps offered through those programs. The Company explained that it did not reallocate the entire $827,820 budget previously requested for delivered fuel heat pump displacement installations to electric resistance heat displacements because there is a much smaller market of customers who currently rely on electric resistance heat relative to the market opportunity for customers who currently rely on delivered fuels. Therefore, National Grid averred, the full amount of the budget request could not be effectively deployed to displace electric resistance heat at the same levels anticipated for displacement of delivered fuels heating.[65]

The result of the reallocation proposed by National Grid was a decrease in the requested overall electric budget of $258,102 and a decrease of the resulting Company performance incentive opportunity of $12,905. The Company now proposed a 2020 Electric Energy Efficiency Program Charge of $0.1323/kWh.[66]

The PUC reviewed National Grid's Compliance Filing at Open Meeting on December 30, 2019. After review, the PUC approved the compliance filing and the revised rates.[67]

V. National Grid's Motion for Clarification and/or Relief of Order

On February 14, 2020, National Grid filed a Motion for Clarification and/or Relief (Motion) from PUC's December 30, 2019 Order.[68] The Company sought the PUC's approval,

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[65] *Id.* OER filed a letter in support of Nation Grid's Motion. http://www.ripuc.ri.gov/eventsactions/docket/4979-OER-Comments 2-26-2020.pdf. OER informed the Commission that it was proposing to use Regional Greenhouse Gas Initiative (RGGI) funds to commit $2.75 million to support heat pump incentives and financing support. OER averred that approval of National Grid's request would reduce market and industry uncertainty and enable a reasonable transition from ratepayer funded incentives to RGGI funded incentives.

[66] This is a 0.3% decrease from the surcharge proposed in National Grid's letter and associated filing on December 6, 2019.

[67] Commissioner Gold did not participate in the review or vote.

[68] http://www.ripuc.ri.gov/eventsactions/docket/4979-NGrid-Motion(2-14-2020).pdf.

through a clarification of and/or relief from the PUC's Order, to wind down the Air Source Heat Pump ("ASHP") Delivered Fuels Displacement Program in the first quarter of 2020.

National Grid represented that it, along with its installation contractors and vendors and OER, had promoted the ASHP Program and the associated enhanced rebate to Rhode Island customers in 2019, and that all parties understood that this program involved a lag period between initial marketing efforts and actual implementation and rebate payment. While the PUC decided to discontinue the ASHP Program in its December 17, 2019 Order, the Company acknowledged that it did not send written notice of the PUC's decision to its vendors until January 13, 2020. In the notice to vendors, the Company requested the number of projects formerly eligible for a rebate that were still not installed.[69]

National Grid also acknowledged that its common practice when ending a program or specific rebate has been to give vendors, contractors, and Rhode Island customers notice that a program is coming to an end and informs them of the last day that a program will be in effect. Thereafter, vendors use this information to plan and revise any relevant advertisements, educate customers, and plan their future business investments accordingly. National Grid provided a recent example of a rebate wind-down that occurred in 2014, when the Company reduced the value of several rebates offered in the Rhode Island Residential Gas Heating Program due to unexpectedly high levels of uptake following a period of extensive flooding and home renovations in Rhode Island. On July 7, 2014, the Company notified all vendors of the rebate changes effective July 31, 2014. These changes included the elimination and reduction of certain rebates associated with the program.[70]

[69] *Id.* at 2-3.
[70] Id. at 4.

In its Motion, the Company requested authorization to pay certain rebates, totaling up to $285,087, in the first quarter of 2020, from 2020 funds, to customers who began the process of converting their heating systems that relied on delivered fuels to ASHP in 2019.[71] The Company also requested that it be allowed to claim 2020 electric savings based on the standard electric savings associated with the standard rebate offer for ASHPs as is permitted by the 2020 Energy Efficiency Plan.

The Company's proposed wind-down process grouped relevant customers in four different categories and provided an overview of each scenario, the number of customers, and associated rebates:

> Scenario 1. Customers falling within scenario 1 were customers who had home assessments, contracted with vendors for the installation of an ASHP, and had the ASHP installed in 2019, but submitted their rebate application to the Company in January 2020. The Company identified 70 customers in this scenario and requested relief to issue rebates totaling $145,689.[72]
>
> Scenario 2. Customers within scenario 2 were customers who had home assessments, and contracted with vendors, for the installation of an ASHP in 2019 but had the ASHP installed or scheduled installations in 2020. The Company identified 27 customers in this scenario and requested relief to issue rebates totaling $81,218.[73]
>
> Scenario 3. Customers within scenario 3 were customers who had home assessments completed in 2019 and contracted with vendors for the installation of an ASHP between

[71] The amount sought represented the incremental rebate spending difference between the "enhanced" rebate ($1,000/ton) in effect in 2019 and the smaller "standard" rebates ($150/$350/ton) that are permitted pursuant to the 2020 Efficiency Plan and integrated control rebates that the Company offered in 2019 to customers transitioning from oil or propane heating systems to ASHPs who wished to install integrated controls as part of their ASHP installation. *Id.* at 6. The Company explained that not all of the customers would complete the installation or qualify for the higher rebate, and therefore, the relief requested represented the maximum amount of exposure the Company could face and, consequently, the maximum amount of relief it would need. *Id.*
[72] *Id.* at 10. These customers are further separated into two groups, 1a and 1b. Customers in scenario 1a submitted their rebate forms and documentation between January 1, 2020 and January 15, 2020–the Company's 2019 internal accounting accrual deadline. Customers in scenario 1a were paid rebates from the 2019 funds, and, therefore, the Company did not seek any form of relief with respect to those customers. Customers in scenario 1b, however, filed their rebate forms and documentation between January 16, 2020 and January 31, 2020—after the Company's January 15, 2020 internal accounting accrual deadline. Consequently, the Company requested relief to fulfill these customer rebates, and for these rebates to be paid from the 2020 Energy Efficiency budget. *Id.*
[73] *Id.* at 11-12.

January 1, 2020 and January 13, 2020—the date the Company notified participating vendors that the ASHP Program had not been approved for 2020. The Company identified 9 customers in this scenario and requested relief to issue rebates totaling $27,638.[74]

Scenario 4. Customers falling within scenario 4 were customers who had home assessments in 2019 and who contracted with, or will contract with, vendors for the installation of an ASHP between January 14, 2020 and February 28, 2020. The Company identified 10 customers in this scenario and requested relief to issue rebates totaling $30,542.[75]

The Company also appended to its Motion a copy of the Residential Heat Pump Rebate application and terms and conditions.[76] The application clearly states that the rebate offer was "valid on equipment purchased and installed between January 1, 2019 and December 31, 2019."[77] The terms and conditions of the application clearly state that the qualifying heat pumps for the rebate must be purchased and installed by December 31, 2019. In addition, the terms and conditions require that the rebate form and required documentation must be postmarked or submitted online within 60 days of equipment installation date or by January 31, 2020, whichever comes first. Finally, the terms and conditions state that the rebate program "is subject to change without prior notice, including rebate levels."[78]

VI. Post-Hearing Discovery Regarding the EBF Transfer

Following the December 9 and 10, 2019 hearing, the PUC directed two sets of post-decisional discovery requests to obtain further information regarding whether $5.2 million is the appropriate amount to transfer to the EBF and whether there are other funds available to reduce the $5.2 million requested.

[74] *Id.* at 12-13.
[75] *Id.* at 13-14.
[76] *Id.* at At. D.
[77] *Id.*
[78] *Id.*

In response to those requests, National Grid provided information including a Rhode Island Infrastructure Bank Efficient Buildings Fund Cash Flow Schedule (EBF Cash Flow Schedule).[79] The schedule showed that as of December 31, 2019, RIIB had $6.7 million in the SBC account and $1.5 million in the SBC Repayments/Recycled Funds (Recycled Funds) account. The schedule also showed that the RIIB expected to receive an additional $950,000 in principal and interest payments during 2020 from previously funded loans.

VII. Decision Regarding National Grid's Motion for Clarification and/or Relief and RIIB Transfer

At Open Meeting on March 18, 2020, the PUC, reviewed and considered National Grid's Motion for Clarification and/or Relief and the answers to post-decisional data requests regarding whether $5.2 million is the appropriate amount to transfer to RIIB.[80]

A. Motion for Clarification and/or Relief

The PUC granted the Motion for Relief to the limited extent of allowing heat pumps rebates for installations completed by January 14, 2020. The PUC allowed National Grid to issue refunds, paid out of the 2019 Energy Efficiency program budget, for those installations. For purposes of the performance incentive, those installations count as actual costs and electric energy savings for the 2019 program year.[81]

The PUC explained that the necessity of the request for relief was entirely due to National Grid's failure to ensure that its vendors and customers were aware the rebates were not approved for installations that did not comply with the 2019 program. The Company materials, including

[79] See response to PUC Post-Decision 2-3; http://www.ripuc.ri.gov/eventsactions/docket/4979-NGrid-DR-PUC 2-3 & 2-4 (2-28-2020).pdf
[80] Commissioner Gold participated remotely.
[81] National Grid is free to pay additional rebates out of shareholder funds or funds received from sources other than the Energy Efficiency program.

the Residential Heat Pump Rebate application and terms and conditions, informed vendors and customers that the program was ending on December 31, 2019. This information was clear and unambiguous. The Company did not explain why its vendors and customers would not have understood these terms and conditions, nor why they would have thought that the program would continue in 2020.

In addition, the PUC decision disallowing the proposed fuel switching rebates relating to replacement or displacement of oil or propane heat with electric heat provided by air source heat pumps was made on December 17, 2019, but the Company failed to notify its vendors of the PUC's decision until January 13, 2020 – almost a month later.[82] The Company did not offer a valid justification for its failure to promptly inform its vendors and customers.

The PUC explained that it had never approved a similar request. Moreover, the example provided by the Company did not support its position. In that example, the Company had unilaterally ended one rebate and reduced others during the middle of the 2014 program year. The Company provided its vendors with three weeks' notice that the rebates would be changing, which it refers to as a wind-down period. This was a Company initiated change however, and the Company did not present any instances where the PUC approved a wind-down period.

In limiting the relief to 14 days beyond the terms and conditions of the 2019 rebates program, the PUC noted that it would be justified in denying all requested relief but allowed the terms and conditions to extend until January 14, 2020 to protect customers that had products installed in the time period before vendors were notified. The PUC did not want to penalize customers who thought their costs would be offset by expected rebates. However, the Company

[82] The PUC noted that there was no reason to even require notification as the program ended by its terms and conditions on December 31, 2019.

must account for the costs and energy saving in 2019, which might result in the Company overspending.

B. Review of Transfer of Funds to the RIIB

The PUC reviewed the responses to post-decisional data requests and noted that, as of December 31, 2019, the RIIB had $ 8.2 million available to fund expected loans, consisting of $6.7 million in the SBC account and $1.5 million in the SBC Recycled Funds account. According to the Plan filings, RIIB requested $5.2 million from the 2020 Energy Efficiency budget and expected to leverage those funds to make $15.6 million in loans. Neither the RIIB nor the Company had provided any explanation as to why the $8.2 million already available was not sufficient to raise the $15.6 million necessary to fund the expected loans.

Consequently, the PUC added a third condition to the conditions in the 2020 Efficiency Plan regarding when National Grid can transfer SBC funds to the RIIB.[83] The RIIB must provide documentation to National Grid that shows that it does not have sufficient funds in its SBC and SBC Repayment/Recycled Funds accounts to make expected loans. National Grid can then review the request and determine whether the RIIB has sufficient funds to fund expected loans. National Grid receives a performance incentive on the funds transferred to the RIIB and has the burden of ensuring that any transfers are supported and appropriate. The PUC will later review any such transfers.

The PUC also directed National Grid to file an updated EBF Cash Flow Schedule on a quarterly basis and provide whether it received any requests and requested documentation from RIIB.

[83] The conditions are found on page 354 of the 2020 Efficiency Plan.

Accordingly, it is hereby

(23937) ORDERED:

1. The Energy Efficiency Program Plan for 2020 is approved with three modifications. First, The Narragansett Electric Company d/b/a National Grid shall remove the proposed fuel switching rebates relating to replacement or displacement of oil or propane heat with electric heat provided by air source heat pumps from the program and reallocate $569,718 to support increases in electric to electric heat pumps offered through the Income Eligible Services and HVAC programs. Second, National Grid shall remove the Delivered Fuel Performance Incentive carve-out. National Grid shall adjust the savings targets for the elimination of the delivered fuel carve-out and the inclusion of weatherization in the core electric targets. Third, National Grid cannot transfer funds to the Rhode Island Infrastructure Bank unless and until RIIB provides documentation demonstrating that it does not have sufficient funds in its SBC and SBC Repayment/Recycled Funds accounts to make expected loans.
2. National Grid may issue heat pumps rebates for installations completed by January 14, 2020, paid out of the 2019 Energy Efficiency program budget. For purposes of the performance incentive, those installations shall count as actual costs and electric energy savings for the 2019 Energy Efficiency program year
3. National Grid shall file updated Rhode Island Infrastructure Bank Efficient Buildings Fund Cash Flow Schedules on a quarterly basis and provide whether it received any requests and requested documentation from the Rhode Island Infrastructure Bank.

4. The Narragansett Electric Company d/b/a National Grid's electric Energy Efficiency Program charge of $0.01323 per kWh is hereby approved for effect on and after January 1, 2020.

5. The Narragansett Electric Company d/b/a National Grid's gas Energy Efficiency Program charges of $0.1011 per Dth for residential customers and $0.704 per Dth for Commercial and Industrial customers are hereby approved for effect on and after January 1, 2020.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JANUARY 1, 2020 PURSUANT TO OPEN MEETING DECISIONS ON DECEMBER 17 AND DECEMBER 30, 2019, AND MARCH 18, 2020. WRITTEN ORDER ISSUED OCTOBER 29, 2020

PUBLIC UTILITIES COMMISSION

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* Margaret E. Curran, Chairperson

Marion S Gold

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Marion S. Gold, Commissioner

Abigail Anthony

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Abigail Anthony, Commissioner

*Chairperson Curran participated in this matter but was unavailable for signature.

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.